

**RSCC AGRICULTURE SUB COMMITTEE
CONFERENCE CALL
AUGUST 14, 2007
8:00 – 9:00am**

PRESENT ON THE CALL: Rep. Mike Milburn, Carla Allen, Terry Whiteside, Frank Schoonover, Mike O'Hara, Sen. Ken Hansen and Jim Lynch. Unavailable: Joel Clairmont, Rep. Mike Jopek.

Subcommittee Chair Carl Allen thanked everyone for joining the call and for giving of their time to the RSCC Agriculture Subcommittee.

POSTPONEMENT OF AUGUST 23RD MEETING

Chairman Mike O'Hara and Director Jim Lynch explained the August 23rd RSCC meeting will be postponed until the second week in October. When legislation was put into effect to transfer the committee from the Governor's Office of Economic Development to Montana Department of Transportation, the effective date of the legislation defaulted to October 1st. Therefore, funding for work of the committee cannot be accessed until October 1st. Conference calls for the subcommittees can continue as scheduled.

WORK OF THE AGRICULTURE SUBCOMMITTEE

During the May RSCC meeting, it was decided to create four working groups (Agriculture, Coal, Ports/Intermodal and Forest/Paper) to identify strengths, challenges and opportunities for each particular industry relating to rail service.

CHALLENGES IN THE AGRICULTURE ARENA

- **Freight Rates:** Carla Allen made reference to a study completed by Terry Whiteside that documents rates and profitability rates for BNSF for shipments of wheat and barley. Carla requested the members of the subcommittee review this study so that everyone has a picture of the profitability BNSF is receiving from Montana producers. As this study is lengthy, it will be made available in electronic format to the subcommittee.
- **Increased Rail Capacity:** A survey conducted by Montana Department of Transportation and Whiteside & Associates confirmed 80% of farm producers experienced elevator plugging due to lack of rail cars and/or are driving much longer distances to unload grain. View the report at http://rscclt.gov/docs/Rail_Grain_Transp_Survey_2006_Final_05_22_07.pdf

The Infrastructure Tax Credit proposal that has been introduced in Congress was discussed. Terry noted that this bill is being pushed by all of the major Class I railroads and the Senate version will be heard in Sen. Baucus' Finance Committee. There are a number of folks that find the railroads requests for Infrastructure Tax Credits a bit curious at a time when the railroads are making record profits and have been for the past 5 years. It is also troubling that at the same time the Class I railroads are asking for Infrastructure Tax Credit – they are simultaneously setting up billions of dollars of stock buy backs – money that could be utilized for infrastructure investment. The key issue that many of the western Ag states are looking at is whether the investment tax credit will be of any benefit to the captive shippers states. Also while the railroads do not want any government oversight of the their infrastructure plans, a number of Congressional folks are looking at plans to require some kind of oversight to any investment tax structure. Lastly, it is important to note that with current Congressional rules, all lowering of tax bills must be offset somewhere else in the federal budget.

- **Trucking Distance and Roads:** As verified in the Rail Grain Transportation Survey noted above, due to longer hauling distances the condition of state and county roads are deteriorating. With the development of the 100 car shuttle system, there is a transfer of cost to the public sector for road repair; funding is not available to repair these roads. There is also a safety issue as non experienced drivers are now operating large trucks.
- **Pulse Crops:** As smaller car facilities diminish, it is difficult to find markets for pulse and rotational crops. A place needs to be found in the system for the marketing of these important crops.
- **Tax Rebate on Infrastructure:** Large railroads are pushing Congress for a multi-billion dollar program for funding infrastructure improvements. The concern is that the investment will go to larger population areas and address intermodal traffic between cities such as New York and Chicago. Montanans have expressed concern that infrastructure investments in Montana – who pay some of the highest freight rates in the nation, are not being made as demand for intramodal freight continues to increase between LA and Chicago.
- **Timing:** The issue is rail car availability and getting the cars in a timely manner. Some areas of the state have drought while other areas have bumper crops. The issue is timing and getting the rail cars where the grain is waiting to be moved.
- **Identity Preserved Wheat and Containers:** When trade teams visit Montana, there is interest in purchasing the wheat in a particular field. Guaranteeing to a foreign buyer that they can get the MT wheat they are examining is not possible today with Identity Preserved movement and those are not available in large scale today. MT wheat is preferred at times because of its high quality and it is, in many cases utilized for blending purposes with other wheat to improve the overall quality. If trade teams could purchase particular wheat and order it, alternative transportation would be needed such as containers. At one time, BNSF was not interested in looking at containers but this may be changing. The RSCC could look into what kind of marketing could be done with containers which may involve working with shippers that could make more demand on the railroads. Container rates are usually less than bulk rates, plus the containers coming through Montana are usually empty and Terry is looking at that.
- **Competition:** The RSCC needs to examine if railroad pricing of Montana grain is hurting Montana's competition in the world and domestic markets. We know, for example, the freight issue has displaced Montana barley out of traditional markets. Once this is verified, options for addressing the problem need to be implemented.

Discussion:

- The railroads are doing the best job they can given they nationally have no reason to resolve these capacity issues completely and/or lower rates.
- A recent article in the Billings Gazette stated grain in on the ground in both North and South Dakota. Now we are hearing reports of over 10 Million bushels on the ground in CO.
- Producers/growers near a main line, such as in Harlem, are fortunate as cars are available, unlike in spur areas.
- At Central Montana Rail trains have been a little behind but not weeks behind as in the past.
- A discussion took place suggesting that both elevator management as well as BNSF may be improving.
- In the Choteau area, problems were experienced with the end of the spring wheat harvest with no place to put grain. Trains were early for the winter wheat harvest.

- It is understood that 110 car shuttles increase efficiency yet there is the need to recognize who benefits from the efficiency and realize the hidden costs for the producers. Currently, producers and the state are paying for the efficiency.

SURVEY FOR THE SUBCOMMITTEE

Carla Allen and Terry Whiteside will develop a survey for each subcommittee member to review that will cover the issues discussed on this call. The survey results will be available to further the discussion for the next RSCC Agriculture Subcommittee call. Note: Sen. Ken Hansen requested a hard copy.